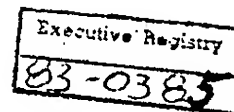




DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250



JAN 1 9 1983

TO: Members of the SIG

FROM: John R. Block

SUBJ: Barter Arrangement to be Discussed at Thursday's SIG

Enclosed please find a set of questions and answers on the proposal to exchange surplus butter with the USSR for strategic materials.

Enclosure



B-223B

1) Q. How much butter does the Government now own?

A. Current CCC uncommitted stocks of butter stand at a record 176,000 MT compared to 103,000 MT at this time one year ago. Current CCC stocks of butter represent almost 40 percent of the butter consumed annually in the United States. Even with the special give-away of 57,000 MT of butter to needy Americans, uncommitted CCC inventories of butter are projected to reach 250,000 MT by the end of FY 1983. EC stocks are 338,000 tons.

2) Q. Why the urgency to move this butter now?

A. The average age of the butter held in CCC stocks is 18 months. Butter traded in normal commercial channels is generally less than 3 months of age and rarely acceptable when older than 6 months. As stocks continue to grow and the average age of the inventory increases, our options for disposal (and recovery of costs) will decrease. There is still some question as to how well the quality of our butter can stand up after two years of storage. Aside from the quality aspects of old butter, it is costing the U.S. taxpayer \$67 million a year for interest and storage charges on our current inventory of CCC butter. Further, this opportunity will be lost if the EC makes the sale. The EC has recently offered subsidized butter to the USSR.

3) Q. What are the alternatives?

A. Normal channels for domestic utilization of our CCC butter stocks, i.e., school lunch and military feeding programs, are being utilized to the maximum. In addition, we are moving as much butter as we can

(125 million pounds) through state organizations for free distribution to needy Americans. Despite these programs, CCC butter stocks are continuing to grow. The only alternative to significantly reduce the current surplus of butter is to move some of it into export markets. A barter arrangement with the USSR could provide us with much needed strategic materials for which we would be exchanging not hard currency but a deteriorating and costly commodity in surplus.

4) Q. How will the U.S. public react to a barter arrangement with the USSR?

A. This will in part depend on how the arrangement is presented to the public. In effect we will be trading a deteriorating (and costly to store) American surplus product for much needed strategic materials for which we would otherwise be paying hard-earned American tax dollars. The exchange would be made at prevailing world market prices for both the butter and the strategic materials so that there can be no criticism that one side is getting the advantage.

5) Q. Is there a shortage of nickel?

A. No. On the contrary, there is a worldwide surplus and prices are depressed. Although today's price of about \$1.75 per pound is up from an early December 1982 price of about \$1.45, the price nine months ago was \$2.50 per pound. Most producers need about \$3.00 per pound to break even on nickel.

6) Q. Why is nickel depressed?

A. For one thing, it is heavily used in the steel industry, which is suffering severe economic difficulties.

7) Q. Is the United States "bailing out" the Soviets, then, by taking nickel off their hands?

A. They have a surplus of nickel and need butter. We have a surplus of butter which will spoil if we don't move it and our grain exports are declining. Perhaps it could be better agreed that the USSR would be "bailing out" the United States in this kind of barter. The United States has been buying nickel from the USSR in recent years on a regular basis for cash.

8) Q. Why barter? Why not just sell it directly?

A. Some believe that a direct sale for cash to the USSR at world market prices (well below U.S. domestic prices) would bring a much stronger negative reaction from American consumers.

9) Q. What will it do to New Zealand?

A. The New Zealand Dairy Board has urged us informally several times to move our butter into the USSR if we have to move it, since this would minimize the impact on regular world butter trade.

10) Q. Wouldn't this be a subsidized sale, and aren't we opposed to subsidizing sales, especially to the USSR?

A. It could be asked whether the sale is subsidized or whether it was the purchase (at our U.S. support price) which was subsidized.

In any case, it would reflect the world market price. The subsidy actually has already been paid to the U.S. dairy producers. The Soviets would never pay, nor have they ever paid, more than the world price. That is far below the European or U.S. dairy support price.

11) Q. Aren't we opposed to the use of barter (counter-trade) in principle?

A. No. It does not seem logical to have a policy of opposition to barter. Each barter contract must stand upon its own feet, but no blanket policy of disapproval should be taken.

12) Q. Will a barter of 100,000 tons of U.S. butter fill the USSR butter need?

A. Yes, for at least many months, perhaps a year or more.

13) Q. How will such a butter sale be viewed by Congress?

A. A sale of this magnitude at this time could be expected to receive a positive response from Congress. Language calling for a sale of surplus dairy products from CCC was included in the report on the FY 83 Agricultural Appropriations Bill, H.R. 7072. While some Congressmen and Senators can be expected to respond negatively to anything we do, doing nothing with our dairy surplus will eventually create some real

negatives, especially if we have to start throwing it away. As a strategy to close the EC off from that market, it will be viewed very positively.